

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2003-346-E - ORDER NO. 2003-743  
DECEMBER 29, 2003

IN RE:	Application of Duke Power for Approval of	)	ORDER APPROVING
	Experimental (Pilot) Fixed Payment Program	)	EXPERIMENTAL
	for Small General Service Customers.	)	PROGRAM KNOWN AS
		)	GENERAL SERVICE
		)	FIXED PAYMENT PLAN

This matter comes before the Public Service Commission of South Carolina ("Commission") on the request of Duke Power, a division of Duke Energy Corporation, ("Duke") for approval of a new program for small general service customers, known as General Service Fixed Payment Plan Pilot Program (Experimental). Duke's request was filed pursuant to S.C. Code Ann. Section 58-27-870(F) and applicable Rules and Regulations of the Commission.

According to its filing, Duke advises the Commission that Duke proposes to offer levelized monthly billing to small general service customers desiring bill certainty. Duke states that its proposal for small general service customers follows positive customer response to a similar program offered to Duke's residential customers. According to Duke, as of September 2003, approximately 72,000 residential customers in both North Carolina and South Carolina are participating in the Levelized Billing Program, which is marketed under the name "Fixed Payment Plan." Under the program, customers are provided electric service at a fixed dollar amount each billing period for one year,

regardless of the amount of electricity used. There is no “true-up” for deviations of actual usage from expected usage. Customers participating in the program have benefited from the certainty of their monthly electric bills, in spite of variations in weather. The renewal rate of residential customers signing up for a second contract period under the program is 90%.

Duke states its belief that small general service customers will also benefit from this type of program. Duke asserts that load characteristics of many small general service customers are very similar to residential loads in terms of responsiveness to weather. Duke states that its market research indicates that about 25% of small general service customers are interested in a fixed payment plan. Further, Duke indicates that certainty of fixed monthly bills will be a valuable tool for small general service customers in managing their cash flows.

According to Duke, approximately 50,000 customers in South Carolina in 31 SIC<sup>1</sup> codes are small businesses whose energy consumption is not driven by production or throughput but instead is temperature responsive. This type of general service customer is similar to a residential customer. Duke asserts that the average small business customer in this target group consumes roughly 20,600 kWh annually, equaling \$1,634 in revenue or approximately one and one-half (1 ½) times that of a residential customer.

The experimental pilot program which Duke proposes to offer is a fixed payment plan. Duke’s offering is a pilot program and is experimental in nature. Duke proposes to offer the program to up to 500 general service customers served on Duke’s rate schedule

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<sup>1</sup> “SIC” stands for Standard Industrial Classification Manual published by the United States Government. As explained more fully later in this Order, Duke’s proposed pilot program is applicable only to certain customers which are classified in certain categories by the SIC.

G or GA who meet the following criteria: (1) have had electric service from Duke at their location for the past 12 months; (2) have a satisfactory payment history for the past 12 months; (3) have minimum daily usage of 5 kWh; and (4) have maximum demand of not more than 28 kW.

The program will be structured in the same manner as the residential fixed payment plan program. An offer will be made to a customer for one year's service, renewable by mutual agreement, and the offer will be customer specific. The offer will be based on individual customer usage history, adjusted to reflect normal weather conditions and expected changes in usage. Duke asserts that use of expected usage rather than actual usage is acceptable because (1) expected usage includes anticipated response to the use of the program; (2) the product includes a risk premium to recover the increase in the uncertainty about the degree of cost recovery relative to the standard tariff; and (3) the term of the contract is limited to one year at a time. The offer will also include a fee of \$1.00 per month to cover the administrative costs of the Fixed Payment Plan and a cost-based risk premium to cover the risk Duke undertakes in offering the program. The risk premium used in the pilot program to small businesses will be 4.4%, which is the same as the risk premium used in the residential program. Prior to the anniversary of the original contract, Duke will review the customer's account and prepare a new fixed payment amount for the following contract year, and a new fixed payment contract and amount will commence each successive year unless terminated by the customer or by Duke.

Because the program is targeted at small general service customers whose usage patterns are similar to that of residential customers, Duke will not offer the program to

customers who currently pay a demand charge. Further, if a small business customer enrolls in the program and subsequent usage exceeds 28kW, such that a demand charge could be imminent, the customer will be removed from the pilot program, without termination charges, and the customer will resume billing under the standard G or GA rate schedule. During the pilot program, only establishments classified in the following categories by the Standard Industrial Classification Manual published by the United States Government are eligible for the program: Motor Freight Transportation and Warehousing, Wholesale Trade, Retail Trade (other than Food Stores and Eating and Drinking Places), Finance, Insurance and Real Estate, and Services (other than Private Households).

A customer may terminate the contract at the end of any Program Year at no charge. Further, a customer may terminate at any time during a Program Year with written notice to Duke to be effective the next billing cycle. In addition, Duke reserves the right to terminate a customer's service under the program (1) if the customer's actual kWh usage in each of three consecutive months exceeds the estimated usage by 30% or more; (2) if the customer no longer meets the qualification of this rate schedule; or (3) for any other violation of the program. A customer will be charged a \$30.00 termination fee if a customer requests to be removed from the program during the Program Year yet continues to receive service on a standard rate schedule at the same location or if Duke removes a customer for excessive usage or other violation of the program. If a customer ceases to receive service at the same location or if a customer is removed from the

program because the customer's demand has exceeded 28kW in a billing period, the customer will not be charged a termination fee.

Based upon review of Duke's General Service Fixed Payment Plan Pilot Program (Experimental), the Commission makes the following Findings of Fact and Conclusions of Law:

#### FINDINGS OF FACT

1. Duke proposes to offer an experimental fixed payment plan to small general service customers known as the Duke's General Service Fixed Payment Plan Pilot Program (Experimental).

2. Duke's General Service Fixed Payment Plan Pilot Program (Experimental) will be of limited availability to general service customers which meet certain criteria.

3. Because the pilot program is targeted at small general service customers whose usage patterns are similar to residential customers, the Commission finds the eligibility restrictions for the program reasonable.

4. Under the program, Duke will estimate the monthly kWh usage for the ensuing 12 month period based on the customer's previous historical metered usage, adjusted to reflect normal weather and for expected changes in usage. The customer's expected usage for each month will be calculated on the customer's applicable rate schedule. The resulting sum of the expected monthly bills, plus a 4.4% risk fee, will be divided by 12, and a \$1.00 per month administrative fee will be added to determine the Fixed Payment amount to be paid by the customer each month in lieu of charges for actual kilowatt hours used calculated on the customer's applicable rate schedule.

5. The Commission finds the use of expected usage rather than actual usage in the calculation of the fixed payment acceptable because the expected usage includes anticipated response to the use of the program, the program includes a risk premium in calculating the fixed payment, and the term of the contract is limited to one year at a time.

6. The Commission finds the termination provisions of the program reasonable as the customer may terminate the contract at the end of any Program Year at no charge. The customer may also terminate at any time during a Program Year upon written notice to Duke to be effective the next billing cycle; however, if the customer terminates service during the Program Year and continues service at the same location on a standard rate schedule, the customer will be charged a \$30.00 termination fee. Further, Duke may terminate a customer's service under the program (a) if the customer's actual kWh usage in each of three consecutive months exceeds the estimated usage by 30% or more or (b) if a customer no longer meets the qualifications of this program or (c) for any other violation of the terms of the program. If Duke removes a customer from the program for excessive usage or for other violation(s) of the program, Duke will charge the customer a \$30.00 termination fee. No termination fee will be charged to the customer if the customer ceases to receive service at the same location or if the customer is removed from the program for exceeding 28kW in a billing period.

7. The Commission finds that use of the proposed program will not require a determination of Duke's entire rate structure and overall rate of return.

8. The Commission finds that the program provides a reasonable basis upon which the fixed payment is calculated as the fixed payment calculation is based on estimated usage derived from actual historical usage patterns with adjustments to reflect normal weather and expected changes in usage. Because the fixed payment calculation is based on actual historical usage patterns with reasonable adjustments, the Commission finds that the proposed program should not result in any rate increase to Duke.

9. The Commission finds that the proposed program is an experimental program offered by Duke to certain customers which meet specified criteria.

10. The Commission finds that approval of Duke's General Service Fixed Payment Plan Pilot Program (Experimental) will serve the public interest in South Carolina by providing a choice of billing to certain of Duke's small general service customers whose load characteristics are similar to residential load in terms of responsiveness to weather and by providing the certainty of fixed monthly bills to assist qualified small general customers in managing cash flows.

#### CONCLUSIONS OF LAW

1. S.C. Code Ann. Section 58-27-870(F) permits the Commission to "allow rates or tariffs to be put into effect without notice and hearing upon order of the Commission when such rates or tariffs do not require a determination of the entire rate structure and overall rate of return, or when the rates or tariffs do not result in any rate increase to the electrical utility, or when the rates and tariffs are for experimental purposes ..."

2. The Commission concludes that Duke's General Service Fixed Payment Plan Pilot Program (Experimental) is an experimental program that is limited only to a small number of customers meeting certain specific and defined criteria.

3. The Commission concludes that approval of Duke's General Service Fixed Payment Plan Pilot Program (Experimental) will not require a determination of Duke's entire rate structure and overall rate of return.

4. The Commission concludes that approval of Duke's General Service Fixed Payment Plan Pilot Program (Experimental) should not result in any rate increase to Duke.

5. The Commission concludes that Duke's General Service Fixed Payment Plan Pilot Program (Experimental) may provide benefits to Duke's small general service customers and that certain small general service customers may find the certainty of fixed monthly bills a valuable tool in managing their cash flows.

6. In approving this pilot program, the Commission concludes that Duke shall track any resulting revenue shortfall, or foregone revenues, incurred in offering this experimental program. Tracking of information, such as revenue shortfalls or foregone revenues, will assist both Duke and the Commission in properly evaluating this program. The Commission will consider any revenue shortfalls or foregone revenues, and the appropriate ratemaking treatment to be accorded to such, in future rate proceedings or rate reviews as determined by this Commission.



IT IS THEREFORE ORDERED, ADJUDGED, AND DECREED THAT:

1. Duke's General Service Fixed Payment Plan Pilot Program (Experimental) is approved as filed.
2. Duke shall track any resulting revenue shortfall, or foregone revenues, incurred in offering this experimental program.
3. The Commission will consider any revenue shortfalls or foregone revenues, and the appropriate ratemaking treatment to be accorded to such, in future rate proceedings or rate reviews as determined by this Commission.
4. Duke shall file with this Commission ten (10) copies of its General Service Fixed Payment Plan Pilot Program (Experimental) within ten (10) days after receipt of this Order.
5. This Order shall be effective upon the date of issuance.
6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



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Mignon L. Clyburn, Chairman

ATTEST:



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Bruce F. Duke, Deputy Executive Director

(SEAL)